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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 003547

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SUBJECT: COR MEMBER MEHDI HAFEDH DISCUSSES POLITICAL AND ECONOMIC CHALLENGES WITH THE AMBASSADOR

REF: BAGHDAD 3196

Classified By: Ambassador Ryan C. Crocker for reasons 1.4 (b) and (d)

¶1. (C) Summary. Council of Representatives (CoR) member Dr. Mehdi Hafedh (Independent, former Iraqiyya) told the Ambassador on October 23 the political situation in Iraq is "alarming." He highlighted the endemic corruption, infighting within many political parties, and the lack of transparency from the PM's Office regarding nominations for replacement ministers as key examples of these problems. Regarding the delay in passing hydrocarbons framework legislation in the CoR, Dr. Mehdi said the current blame should be placed on the Kurds for trying to do it alone in enacting their own regional legislation (August 2008). On the 2008 budget, Dr. Mehdi said the CoR is eager to receive the details of the budget from the Council of Ministers (CoM). He fears Iraq will not meet its obligations under the IMF Stand-By Arrangement, particularly in the area of debt cancellation. Mehdi does not support federated states in the three regions of Iraq (North, South, Middle) and thinks this issue should be discussed carefully after Constitutional amendments are carefully reviewed. End summary.

SITUATION IN IRAQ ALARMING

¶2. (C) CoR Member Dr. Mehdi Hafedh told the Ambassador the political situation in Iraq "is alarming and there is a crisis of government," referring to the lack of services to the Iraqi people. Mehdi noted there are both political and economic problems plaguing Iraq. He called corruption a daily phenomenon that may become worse in the future unless the Commission on Public Integrity (CPI) and the Inspector Generals for each ministry (IG) have more oversight. He noted they are paralyzed in their ability to carry out their respective duties under the current political situation.

¶3. (C) Mehdi also highlighted the current divisions within each of the parties, including Tawafiq, Dawa, and Iraqiyya. He noted, however, the Kurdish leadership is more unified. He mentioned former Prime Minister Jafari is meeting with the opposition in London and Tehran and also talking with Qasim Daoud's Solidarity party to build support against PM Maliki. In response, the Ambassador stressed the importance of keeping the current positive momentum focused on the surge and stability in Anbar and Baghdad and supporting the PM, rather than counterproductive efforts to change the leadership.

LACK OF TRANSPARENCY IN PROCESS OF REPLACEMENT OF MINISTERS

¶4. (C) Mehdi said PM Maliki has reportedly selected replacement ministers for Agriculture, Health, Communications, and Transportation, which need to be approved by the CoR. However, he noted the CoR has yet to see these nominations. The Ambassador stressed the importance of the

CoR in being a partner with the Council of Ministers (CoM), and the need for qualified ministers to tackle the tough areas of service delivery.

ECONOMIC PROGRESS NEEDED

¶ 15. (C) Regarding delays in passing hydrocarbon framework legislation, Dr. Mehdi said the current blame for the enactment should now be placed on the Kurds for "trying to do it alone" by enacting their own regional framework legislation, which passed in August 2008. In response to the Ambassador's comment regarding movement on the 2008 budget, Dr. Mehdi said the CoR hasn't received it and members are very eager to learn the details. He noted the slow rate of implementation of the investment program last year of around 10 percent. He also called for an increase in the allocation of the capital investment budget.

¶ 16. (C) Mehdi thinks the IMF is too optimistic in forecasting a 2007 economic growth rate of 6 percent. On the IMF Stand-by Arrangement, he stressed it will expire soon.

(Note: The Stand-By Arrangement expiration date was extended to December 2007. End Note). He said there is a fear according to reports from the IMF on whether the GOI will achieve its goals under the Paris Club Agreement, and also highlighted the large amount of debt that has not yet been canceled or rescheduled with Saudi Arabia and other Gulf countries.

DEEP POLITICAL DIVISIONS IN THE COR

¶ 17. (C) Mehdi highlighted the current deep divisions in the

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CoR, which are causing significant delays in making progress on the de-ba'athification and hydrocarbon laws. He lamented that too many CoR members have political motives, causing these efforts to stall. The Ambassador encouraged Mehdi to use his leverage in the CoR to encourage progress on these issues.

CONSTITUTIONAL REFORM, FEDERATIONS - WAY FORWARD?

¶ 18. (C) Mehdi said he was disturbed by the "fuss" created over Senator Biden's proposal of federated states in the South, North, and Middle regions of Iraq, fearing it will result in increased sectarianism. He also noted this question should not be discussed until amendments to the Constitution are carefully reviewed. The Ambassador agreed that moving toward this step of federated states would have serious consequences, including increased influence by Iran in the South.

CROCKER